

FINANCE ROADMAPS FOR CLIMATE PROJECTS

How can local governments in Sub-Saharan Africa facilitate access to finance?

Overview Chapter Summary

The “**Finance Roadmaps for Climate Projects**” report is aimed at providing Local Governments (LGs) located in Sub-Saharan Africa with practical roadmaps of action steps they can proactively undertake to facilitate the identification, development, finance, and implementation of Climate Projects for their constituencies. The study comprises 10 chapters, each focusing on a specific type of Climate Project ranging from wastewater treatment and solar projects, to flood risk management, public lighting, tree planting, and more.

On top of these dedicated chapters, the report presents an overview of the financing roadmap for LGs, with an introduction to key concepts and projects, guiding the reader on the financing roadmap, from project identification to project development, finance and operation. This overview and its key messages are summarized here.

There exists a triple rationale for LGs to implement climate projects, arising from three different categories of incurred benefits:

- 1. Climate and environmental benefits** resulting from projects aiming at mitigating climate change (CC) and/or adapting to CC, such as heat wave reduction or crop destruction avoidance among others;
- 2. Development benefits** such as improving public health and living standards;
- 3. Local Governments’ Economic Benefits** arising from both additional direct or indirect income and operational savings.

The challenges resulting from climate change are multiple and highly complex. Local Governments in SSA thus need to build partnerships to plan, finance, develop and operate ambitious local climate projects. This allows LGs to secure funding, ensure bankability of projects, while choosing the best technical options and making sure the local community supports projects. The report presents the roles of different actors within the SSA Climate Ecosystem to foster crucial partnerships for project development and implementation. These actors include National Government entities, Development partners such as International Climate Funds, private entities, local organizations and NGOs.

Readers will be able to learn about “facilitation actions” that are available to LGs. These actions are best practice suggestions to address key challenges of climate projects. For example, if a LG faces is constrained by limited funds for project identification and development, the chapter gives an overview of different solutions to identify financing models and sources of funding as actionable steps to secure funding

A central part of the overview focuses on the financing roadmap, meaning the different steps and actions for LGs to undertake to advance climate projects – for instance the first step is to assess revenue requirements and opportunities. This helps to understand the potential to generate revenues

or savings from projects. Most of the time, climate projects in SSA do not generate enough revenue to achieve full cost-recovery, principally because the collection of cost-reflective user fees is impossible. Projects belonging to Wastewater treatment and reuse or Solar projects for example, have an experience of achieving either total or partial cost-recovery in SSA, while tree planting and reforestation and flood risk management projects usually oscillate between partial cost recovery to no cost-recovery at all.

The most common approach for funding climate projects is to secure a combination of finance, which can range from 100% publicly-sourced finance, to a mix of public and private sector financing sources called “blended finance”. Each project’s risk and revenue profile will largely determine what funding models it will be able to access. The report identifies and details numerous possible mechanisms such as Private-Public Partnerships, pooled approaches, or reliance on private sector funding for example. These different models are then compared allowing the reader to understand each model’s advantages and disadvantages.

Following this explanation of diverse financing methods, the chapter continues to the immediate action steps that LGs can undertake to advance the identification, development, and finance of Climate Projects. These steps range from early stages such as identifying project options and development of a budget development to feasibility demonstration and finally monitoring and evaluation of the project. These steps are detailed with corresponding tasks and outputs.

Beyond tools to facilitate project-specific financing, the last section of the chapter focuses on enabling factors that can be put in place by LGs to unlock financing for climate projects, in a proactive manner. These enabling factors can directly refer to LGs action through fiscal levers, optional sources of funding or local policy best practices. Because of the importance of climate change for local as well as national governments on the topic of climate, the report also presents different ways in which these different levels can engage to enhance an LG’s implementation of climate projects.

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